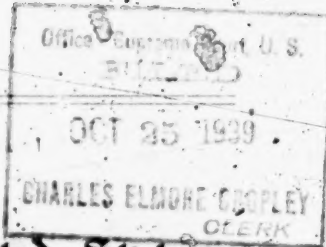


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IN THE
Supreme Court of the United States

October Term—1939.

No. **482**

EDWARD SHELDON and MARGARET AYER BARNES,

Petitioners,

—against—

METRO-GOLDWYN PICTURES CORPORATION, METRO-
GOLDWYN-MAYER DISTRIBUTING CORPORATION,
LOEW'S, INC. and CULVER EXPORT CORPORATION,

Respondents.

**PETITION FOR A WRIT OF CERTIORARI TO THE UNITED
STATES CIRCUIT COURT OF APPEALS FOR THE
SECOND CIRCUIT AND BRIEF IN SUPPORT THEREOF.**

ARTHUR F. DRISCOLL,
Attorney for Petitioners.

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LOEW'S, INC. and CUYLER EXPORT CORPORATION,
Respondents.

**PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE SECOND CIRCUIT.**

The petitioners above named pray that a writ of certiorari issue to review the judgment of the United States Circuit Court of Appeals for the Second Circuit entered in this case on September 8, 1939 (R. 1287).

Outline of Matters Involved.

This action was begun June 24, 1932 by the filing of a bill in equity in the District Court, Southern District of New York (R. 1). The bill charged copyright infringement of petitioners' play DISHONORED LADY by respondents' motion picture LETTY LYNTON,

and an injunction and an accounting of profits were sought (R. 4f).

After a trial the District Judge dismissed the bill finding no infringement (7 Fed. Supp. 837).

The issue of infringement was appealed to the Circuit Court which reversed, found and enjoined the infringement, and ordered an accounting of profits (81 Fed. 2d 49, R. 1291; R. 6). Respondents then sought a writ of certiorari which was denied (298 U. S. 669).

A Special Master took the account of profits. His report, with slight modifications, was confirmed by the District Court (26 Fed. Supp. 134; R. 1212). Petitioners were awarded all of the profits made by the infringement.

The respondents' plea before the Master and the District Court was that there should be an apportionment of the profits. Both the Master and the District Court refused to apportion (R. 1194). The Circuit Court reversed the District Court and apportioned the profits—20% to petitioners—80% to respondents (R. 1266). A petition for rehearing was denied on September 5, 1939 (R. 1285).

Facts.

Petitioners are playwrights of experience and ability. On January 18, 1930 they copyrighted their play DISHONORED LADY as an unpublished work (R. 4a, 4b). Their play was inspired by a famous Scotch criminal trial which occurred in 1859 known as "The Trial of Madeline Smith".

DISHONORED LADY opened in New York on February 4, 1930 and after its New York run, toured the road. Katharine Cornell, an outstanding actress, played the

leading rôle. The play was also produced abroad in London.

Respondents are allied corporations engaged in production, distribution and exhibition of motion pictures. Respondent, Metro-Goldwyn Pictures Corporation, engages in the *production** or manufacture; respondent, Metro-Goldwyn-Mayer Distributing Corporation engages in the *distribution*, that is, licenses their exhibition in theatres; defendant, Loew's, Inc. operates (through subsidiaries) a chain of theatres which *exhibits* pictures; Culver Export Corporation takes over distribution abroad.

Shortly after the New York opening the respondents procured a manuscript of the play DISHONORED LADY and negotiations were carried on for sixteen months for the sale of the motion picture rights thereto. The parties had agreed on a price and a formal contract was prepared.

However, before the money was passed, respondents wanted to satisfy a trade association of which they were members, known colloquially as the "Hays Organization". The "Hays Organization" barred the play for picture purposes, unless certain requirements could be met which it thought to be in keeping with a code it had set up.

In May, 1930, while the deal was still pending, a novel entitled LETTY LYNTON was published in England by Marie Belloc-Lowndes. This novel was also inspired by the Madeline Smith trial.

In June, 1931, the respondents abandoned negotiations for petitioners' play.

Shortly thereafter they bought the motion picture rights of the novel LETTY LYNTON. For it they paid

* Italics throughout the petition and brief are ours.

\$3,500. The price fixed upon petitioners' play had been \$30,000.

Immediately and deliberately they proceeded to make a motion picture of petitioners' copyrighted stage play DISHONORED LADY. The novel LETTY LANTON served as a screen.*

The Court below found the motion picture to be a deliberate plagiarism (R. 1264, 1265):

"They were not innocent offenders; they deliberately lifted the play; it would take far more than the denials in the old record to convince us to the contrary in the face of the step by step 'tracking', which our comparison and analysis disclose. * * * We now hold that the borrowing was a deliberate plagiarism."

The respondents' motion picture was first released or publicly shown on May 7th, 1932 (R. 302).

Petitioners promptly filed suit on June 24, 1932. Issue was joined on July 25, 1932. Petitioners applied for an injunction *pendente lite* on July 29, 1932.

The District Court, in balancing the conveniences, denied the injunction but set the case "near the head of the Day Calendar for trial October 1932".

The trial, however, was not held in October but was delayed about nine months, until April 1933. The Judge who dismissed the bill did not render his decision until July 31, 1934, over a year after the trial (7 Fed. Supp. 837). (R: 1.)

The box office value of a motion picture exhausts itself in the United States in about six months after

* These facts appear in the prior opinion of the Court below 81 Fed. (2) 49; (R. 1291) and the District Court's opinion on dismissal of the bill 7 Fed. Supp. 837.

its first release, and in the foreign field in about a year after the release in the United States (R. 383, 385).

Petitioners, though duly energetic, never succeeded in procuring an injunction until July, 1936—too late by over three years to be of service (R. 4).

Meanwhile, although they have been found deliberate plagiarists and had exhausted the infringing work at the box office, respondents nevertheless have not only been allowed to recoup all of their costs but in addition, have been awarded 80% of the profits.

The Court below justified its apportionment of profits by distinguishing the cases of *Callaghan v. Myers*, 128 U. S. 617, and *Belford v. Scribner*, 144 U. S. 488, and by overruling its own prior decision of *Dam v. Kirk LaShelle*, 175 Fed. 902 (C. C. A. 2). It said that the *Callaghan* and *Belford* cases,

"hold no more than that when he (the infringer) makes no effort to discharge the duty resting upon him (of furnishing a basis of apportionment), he will be cast for the whole profit" (R. 1261).

Because respondents had selected popular actors and had supplied a skillful director and producer, along with other contributions, *e. g.*, scenario, costumes, advertising, etc., and had made a successful motion picture, the Circuit Court made an arbitrary apportionment of profits, giving respondents 80% (R. 1266).

It also allowed as part of overhead an item of \$922,141.09 (R. 1266).

The question of apportionment of profits and this one item are the sole questions which petitioners ask.

\$922,141.09 Item.

The facts on the \$922,141.09 item are as follows:

Prior to 1924 Louis B. Mayer, Irving Thalberg and J. Robert Rubin were *producing* motion pictures through a corporation called Louis B. Mayer Pictures, Inc.

On April 7, 1924 it made an agreement with Metro Pictures Corporation (name later changed to Metro-Goldwyn Pictures Corporation) (Ex. 33, R. 832). Under that contract the two corporations who theretofore had been separately producing motion pictures were unified. The three individuals, Mayer, Thalberg and Rubin, took charge of motion picture production for Metro Pictures Corporation. They were paid substantial weekly salaries, plus 20% of the net receipts of Metro Pictures Corporation (Ex. 33, R. 839).

In 1926 Mayer, Thalberg and Rubin formed a partnership—Louis B. Mayer Pictures—and this partnership thereupon succeeded to the old position held by Louis B. Mayer Pictures, Inc. (Ex. 33, R. 858).

In 1927 Loew's, Inc., the "top" holding company (Ex. 17, R. 770) took over and extended this contract to 1932 and the interest of the partnership which theretofore had been in the earnings of Metro Pictures Corporation, Inc. was changed to an interest in the combined annual net profits of Loew's, Inc. (Ex. 33, R. 861).

The three individuals comprising the partnership would now receive 20% of the combined annual net profits of Loew's, Inc., up to two and one-half million dollars, after payment of \$2 per share on Loew's stock, and 15% of all other combined net profits (Ex. 33, R. 862; R. 986).

Loew's, Inc., through its stock holdings, was not only interested in the production of motion pictures, but also in their distribution and exhibition as well as incident real estate holdings (R. 770-Ex. 17; R. 900-Ex. L1; R. 913-Ex. L10).

This percentage interest of the three individuals amounted in 1932 to \$922,141.09.

In addition they received the following salaries: Mayer \$2500 per week; Thalberg \$4000 per week; Rubin \$2000 per week (R. 987).

Petitioners contend that the item is merely a distribution of profits to the three individuals. The Master said "*in no sense could it be considered as a part of the cost of production*" (R. 987).

The Court below, in overruling the Master and the District Court, said (R. 1266):

"The payments were never profits of the defendants at all; the contracts effectively laid hold of them the moment they came into existence."

Jurisdiction.

Jurisdiction is involved under Section 240(a) of the Judicial Code, 28 U. S. C. §347 as amended by the Act of February 13, 1925 (43 Stat. 938), and Section 38 of the Copyright Law (17 U. S. C. §38).

Cases believed to sustain the jurisdiction are: *Callaghan v. Myers*, 128 U. S. 617; *Belford v. Scribner*, 144 U. S. 488; *Douglas v. Cunningham*, 294 U. S. 207; *Duplate Corp. v. Triplex Safety, etc.*, 298 U. S. 448.

Questions Presented.

1. In a suit for copyright infringement can the owners of a copyrighted play recover all profits made from a motion picture found to have infringed such play where such infringement is a deliberate plagiarism?
2. Can there be any apportionment of profits where a copyrighted play is an integral, literary, dramatic unit and has been infringed by a motion picture which is likewise an integral, literary, dramatic unit?
3. Because the picture has been successful, can there be an apportionment of profits to a wilful infringer, upon the basis of the popularity of the stars, the skill and reputation of the producer and director, the scenery and costumes and the extent of the advertising?
4. Can a charge of \$922,144.09, based upon earnings of a holding corporation, paid to three individuals in addition to annual salaries of \$130,000, \$104,000 and \$208,000, stemming from the consolidation of the businesses of two corporations, be charged as part of the cost of the picture?

Reasons for Granting the Writ.

1. The decision of the Court below in allowing copyright infringers to retain 80% of the profits realized from the infringing work is the first decision of its kind in this country or in England that counsel has been able to find.
2. The decision is in conflict with the Section 25 of the Copyright Law (U. S. C. A. 17) which gives

to the copyright owner "all the profits which the infringer shall have made from such infringement" and in conflict with the controlling decisions of this Court in copyright cases of *Callaghan v. Myers*, 128 U. S. 617 and *Belford v. Scribner*, 144 U. S. 488.

3. The decision, in granting an apportionment on the basis of the actors, producer, ~~director~~, scenery, costumes and advertising supplied by the infringer, is in conflict with precedents established by this Court in patent cases as set forth in *Duplate Corporation v. Triplex Safety Glass Co.*, 298 U. S. 448. It is also in conflict with *Conroy v. Pa. Electrical & Mfg. Co.*, 199 Fed. 427 (C. C. A. 3), with *Clark v. Johnson*, 199 Fed. 116 (C. C. A. 7) and with *Stearns-Rogers Mfg. Co. v. Ruth*, 87 Fed. (2d) 35 (C. C. A. 10).
4. The decision of the Court below in granting the respondents 80% of the net profits, *though finding that they were deliberate plagiarists*, is in conflict with the decisions of this Court of *Westinghouse v. Wagner*, 225 U. S. ~~604~~; *Dowagiac v. Minnesota*, 235 U. S. 641; *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251, and with the cases of *Brennan v. Dowagiac*, 162 Fed. 472 and *Underwood v. Fox*, 220 Fed. 880, in the Sixth Circuit.
5. The allowance of the item of \$922,141.09 as a deduction from profits is at variance with the decision of *Lee v. Malleable Iron Range Co.*, 247 Fed. 795, modified and affirmed 263 Fed. 896 (C. C. A. 7), cert. denied 251 U. S. 562.

***Concerning the Importance of the Questions
Presented.***

Until the decision below, a copyright owner was thought to be entitled to all profits made by an infringer in the use of his work. The effect of the decision is to overrule this Court's decisions in *Callaghan v. Myers*, and *Belford v. Scribner*, which granted to the author all profits made from the infringement of his work.

If apportionment is to be had in copyright infringement cases, particularly on the erroneous basis as suggested by the decision below, no one can overstate the possibilities of the decision.

Today the vast and multiple means of dissemination of authors' works, and the almost instantaneous surfeiting of the entire nation therewith, is illustrated in the fields of radio, motion picture, theatrical and embryonic television industries, to say nothing of the mass publication of books, novels, newspapers and other publications:

The authors who create, and the industries which manufacture the copies of their creations, lean heavily upon the uniform and correct application of the laws which affect them respectively.

If industry can make a glorified copy of the work of an author; escape the hazard of an injunction because the arm of equity is not quick enough to stop the wrong before it has run, and after eight years of crushing litigation retain 80% of the gains, there is little incentive left for industry to consult or make contracts with authors.

The law was designed as a deterrent to plagiarism—the copyright owner was given "all the profits" he

they great or small. The law was not designed with regard to the ultimate position of the copyright owner—his position to be varied with the amount of the profits. The design of the law was to deprive the wrongdoer of *all* profits—not all profits if the infringement is a financial failure—and 20% of the profits if the infringement is a success.

Unless the decision is corrected, district courts and courts of other circuits are sure to follow it. Already it is furnishing thought to the bar as a basis for re-entry to the field of trademark; despite the case of *Hamilton-Brown Shoe Co. v. Wolf*, 240 U. S. 251, wherein this Court refused an apportionment because it was "inherently impossible", and where the supposed analogies to patent cases were rejected. As a consequence it is probable that there will soon be forthcoming similar contentions in trademark cases.

It is therefore of great public interest and for the sake of uniform and correct administration of law that the questions be settled by this Court.

WHEREFORE, it is respectfully submitted that this petition for a writ of certiorari to review the judgment of the Circuit Court of Appeals should be granted.

Dated, October 23rd, 1939.

ARTHUR F. DRISCOLL,
Attorney for Petitioners.

BRIEF IN SUPPORT OF THE PETITION.

Opinions Below.

On the merits of the infringement (not involved here):

The opinion of District Judge Woolsey is reported at 7 Fed. Supp. 837.

The opinion of the Circuit Court of Appeals is reported at 81 Fed. (2d) 49.

On the accounting of profits:

The opinion of District Judge Leibell is reported at 26 Fed. Supp. 134.

The opinion of the Circuit Court of Appeals is reported at 106 Fed. (2d) 45.

The grounds upon which jurisdiction of this Court is invoked are set forth in the petition, page 7.

The statement of the case containing matters material to the consideration of the questions presented is set forth in the foregoing petition.

Constitution and Statutes Involved.

Article I, Section 8, Clause 8 of the Constitution and the pertinent provisions of the Copyright Act of March 4, 1909, as amended, 17 U. S. C., Sections 25, 34 and 38, are printed in the Appendix at page 29.

Specification of Errors.

The Circuit Court of Appeals erred:

1. In holding that the copyright owners were not entitled to all the profits realized by the infringers.

2. In failing to follow the law and precedent established by this Court in *Callaghan v. Myers, supra*, and *Belford v. Scribner, supra*.
3. In holding that in the *Callaghan* and *Belford* cases, the infringers were "cast for the whole profit" because they had made "no effort to discharge the duty resting upon him (them)" of making the apportionment.
4. In apportioning the profits because the infringement of the copyrighted work was in the form of a motion picture copy thereof.
5. In apportioning profits when the infringing motion picture was a single indissoluble unit, which was distributed and exhibited as a unit, and all receipts therefrom were for the use of the infringing work as a unit.
6. In apportioning to the infringers 80% of profits solely upon the popularity of the stars or actors, the skill and reputation of the producer and the director, the scenery and costumes, and the extent of the advertising furnished by respondents in the manufacture of their motion picture copy.
7. In not holding that the alleged contributions made by the respondents to the infringing work were nothing more than contributions of labor and material, and therefore but an item of expense of manufacture, rather than a distinct contribution.
8. In apportioning profits where the infringement is a deliberate plagiarism.
9. In allowing the respondents a credit of \$922.141:09 as part of the overhead to be charged proportionately against the cost of manufacturing the respondents' picture.

Summary of the Argument.

I. The Court below, in making an apportionment of profits in a suit for copyright infringement, erred in not following the decisions of this Court of *Callaghan v. Myers* and *Belford v. Scribner*, which refuse such apportionment and in purportedly distinguishing them on a non-existent basis.

II. The Court below justified its apportionment by a resort to patent cases.

But granting *arguendo* that there can be an apportionment of profits in a suit for copyright infringement, the basis used by the Court below has never been recognized even in the field of patents.

III. At all events, since the respondents have been found to be "deliberate plagiarists" they are under no circumstances entitled to an apportionment or other equitable consideration.

IV. The payment of \$922,121.09 to Messrs. Mayer, Rubin and Thalberg, in addition to salaries of \$130,000, \$104,000 and \$208,000 respectively, in the year 1932, is a distribution of profits and is not properly allowed as cost.

POINT I.

The decision of the Court below is the first of its kind in this country or in England that counsel has been able to find.

It is therefore respectfully urged that "there are special and important reasons" why this Court should take jurisdiction under the general reserve of discretion indicated in Rule 38, Subd. 5 of the Supreme Court Rules.

POINT II.

The Court erred in not following the decisions of this Court of *Callaghan v. Myers* and *Belford v. Scribner*, and in purportedly distinguishing them on a non-existent basis.

The Court below did not follow, but purported to distinguish, the prior decisions of this Court of *Callaghan v. Myers* and *Belford v. Scribner*, by saying that "they hold no more than that when he (the infringer) makes no effort to discharge the duty resting upon him he will be cast for the whole profit" (R. 1261). This distinction has no basis in fact.

We have examined the records of those cases. Not only was "an effort" made in both, but in the *Belford* case, counsel apparently sought to escape the doctrine of the *Callaghan* case; for Belford not only offered expert testimony, but specifically pleaded in mitigation that the infringing portions "do not exceed from ten to fifteen percent of the entire contents" (*Belford Rec.*, p. 22).

Belford called an expert on cook books. He testified that 153 cooking recipes had been copied, in whole or in part, but that these constituted but a total of 2,010 lines, or 56 pages out of a total of 300 pages contained in the infringing cook book; that "if the matter which has been copied * * * were to be taken out of the book, it would leave a work of value as a cook book" (*Belford Rec.*, pp. 116, 117).

Scribner did not offer to rebut this testimony.

On appeal Belford assigned as error to this Court the refusal to apportion profits (Assignment No. 5, *Belford Rec.*, p. 122). Belford's brief to this Court

(p. 15) specified as error that the infringement constituted but a "small part" and could "easily and certainly been separated from the balance".

The record in the *Belford* case demonstrates the error of the Court below in attempting to distinguish it on the basis that "no effort" was made to furnish a basis for apportionment!

In the *Callaghan* case, the infringement had to do with Freeman's Illinois Reports. Freeman had taken the court opinions which were common property or *publici juris* and had given them the usual reporter's treatment by adding indices, headnotes and the like. These were copyrighted and were found to have been infringed.

In the *Callaghan* case no so-called expert evidence appears to have been offered, but Callaghan's counsel in his brief to this Court (p. 7), urged that the apportionment be made on the physical content measured separate from the opinions, which, considering the subject matter, was as sane a basis as any other. The invitation was refused.

The Court below in overruling its own prior decision of *Dam v. Kirk LaShelle*, 175 Fed. 902, thought that the court, there in refusing an apportionment, acted *sua sponte* (R. 1261).

It is submitted that the Court in the *Dam* case was not acting *sua sponte*, but was following well recognized legal principles.

It was the Court below which acted *sua sponte* in making the purported distinction that "no effort" was made in either the *Belford* or *Callaghan* cases; for not even the respondents suggested that the *Callaghan* and *Belford* cases were distinguishable upon that ground. They contented themselves with trying to

demonstrate that the *Callaghan* and *Belford* cases involved slavish copying, done wilfully.*

These grounds are now no longer available to respondents as they are now themselves convicted as deliberate plagiarists (R. 1265).

The Court below noted that: "The plaintiff called no witnesses to rebut this testimony" (R. 1264). Neither did Scribner in the *Belford* case. It, therefore, cannot be said that in the *Belford* case this Court refused the apportionment on any weight of evidence theory. The apportionment was refused solely as a principle of law. In *Callaghan v. Myers* this court had previously said (p. 666):

"* * * the only proper rule to be adopted to deduct from the selling price the actual and legitimate manufacturing cost. If the volume contains matter to which a copyright could not properly extend, incorporated with matter proper to be covered by a copyright, the two necessarily going together when the volume is sold as a unit, and it being impossible to separate the profits on the one from the profits on the other, and the lawful matter being useless without the unlawful, it is the defendants who are responsible for having blended the lawful with the unlawful, and they must abide the consequences on the same principle that he who has wrongfully produced a confusion of goods must alone suffer."

"The present is one of those cases in which the value of the book depends upon its completeness and integrity. It is sold as a book, and not as the fragments of a book. In such a case, as

* (Respondents' Brief below, pp. 22, 23, 24.)

the profits result from the sale of the book as a whole, the owner of the copyright will be entitled to recover the entire profits on the sale of the book if he elects that remedy."

In the *Belford* case the Court said at page 508:

"The rule is well settled that, although the entire copyrighted work be not copied in an infringement, but only portions thereof, if such portions are so intermingled with the rest of the piratical work that they cannot well be distinguished from it, the entire profits realized by the defendants will be given to the plaintiff."

This Court has refused to extend the apportionment theory to trademarks because it was found to be "inherently impossible", *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251.

Nor was this Court in the *Hamilton-Brown* case without the benefit of *Westinghouse v. Wagner*, 225 U. S. 604, or *Dowagiac Mfg. Co. v. Minnesota Plow Company*, 235 U. S. 641, the two cases which formed the keystone of the respondents' argument, and of the decision below.

Both were referred to in the *Hamilton-Brown* case, but this Court refused to apply the suggested analogies of patent to trademark cases.

And it is submitted here that apart from the fact that both a patent and a copyright are statutory monopolies there is nothing in common between them.

The subject matter protected, means of securing, requirements for and the scope of the protection when acquired are worlds apart.

It is not lacking in significance that the Copyright Law (47 U. S. C.) Section 25b provides for a re-

covery of "all profits" whereas the Patent Statute (35 U. S. C.) Section 70 and the Trademark Statute (15 U. S. C.) Section 99 provide for a recovery of "the profits."

"All" is missing in both the Patent and Trademark Statutes.

POINT III.

Granting that there should be apportionment, the basis used by the Court below has never been recognized even in the field of patents.

The Court below said there were "two kinds" of evidence offered. One was "the price of the picture rights in the play, as both plaintiffs and defendants had agreed to it"; the other was "the opinions of experts".

The Court rejected the agreed price leaving as the sole basis for apportionment the "expert testimony".

"Very generally they (the experts) professed to believe that the controlling factor in the success of a play (picture) was the popularity of the actors—the stars—* * *; that the other chief factors were the skill and reputation of the producer and the director, the scenery and the costumes, the extent of the advertising, and the reputation and standing of the producing company itself" (R. 1263, 1264).

On the foregoing categories, less the "currency of the respondents' reputation", the Court predicated its apportionment, stating, however, that it was "aware that out of all this no real standard emerges and that it would be absurd to treat the estimates of experts as being more than expressions of very decided opinions that the play should count for very little" (R. 1265).

We call this nothing more than "labor and material"; merely an item of cost to be allowed before arriving at the figure of profit.

But the Court below, not only allowed the cost of the labor and material, but allowed respondents to share in the profits to the extent of 80%. Such treatment is never found in patent cases.

In *Duplate Corporation v. Triplex Safety Glass, etc.*, 298 U. S. 448, a similar contention was before this Court in a patent case. Justice Cardozo in that case said (at p. 457):

"But this is to misconceive utterly the position of an infringer accounting for illicit profits. 'An infringer cannot be heard to say that his superior skill or intelligence enabled him to realize profits by his infringement which a person of less skill might not have realized.' *Lawther v. Hamilton* (C. C.), 64 F. 221, 224 (citing cases). * * * Whatever is at his call in the service of the enterprise—*brain and intelligence, factories and hands, patents and machinery*—will be viewed upon an accounting as if held upon a quasi-trust to contribute what it can to the profits of the business. *The wrong-doer must yield the gains begotten of his wrong.*"

In *Conroy v. Penn. Electrical & Mfg. Co.*, 199 Fed. 427, 430, 431 (C. C. A., 3rd), the Court expressed a similar view:

"As argued by counsel, defendants might as well claim that they had more skilled workmen than other manufacturers or more experienced and efficient managers, or more reputation and prestige in the trade, which enabled them to secure higher prices for their goods."

The same view, very well expressed, is found in the opinion of Judge Geiger in *Christensen v. National Brake & Electric Co.*, 10 Fed. (2d) 856, at 866:

"In other words, his liability is not dependent upon his having been lavish or niggardly in the accoutrements of the infringing device, or in the degree of its perfection *within the scope* of the patent. Such a situation, as I conceive it, never presents an issue of segregation in its true sense."

The fallacy of the Court below is in attempting to apportion the profits falling *within the scope of the copyright itself*.

If there were to be an apportionment based upon patent analogy, it should be by a segregation of the copyrighted material from the added non-copyrighted portion.

In patent, the profits may be attributable to other portions of the machine *without the scope of the patent* because the unpatented portion may still stand as a useful mass and be viewed in its "distinct and independent character". *Clark v. Johnson*, 199 Fed. 116.

But a literary composition is so essentially different from a mechanical structure that the same cannot be said. The third act of a comedy will hardly improve the second act of a tragedy; and likewise if the third act of any play is removed, the remaining two will be comparatively useless to anyone.

The courts do not consider what portion of the profit may be ascribed to the defendant's good workmanship in infringing *within the scope of the patent*.

"The items for which allowance of profit may be made must be of a *distinct and independent* character."

Clark v. Johnson, 199 Fed. 116, 122 (C. C. A. 7).

If apportionment theories of patent law are to be extended to the copyright law, and perchance to the trademark law as well, then at least *the foundation for such apportionment should also be analogous to that in patent cases.*

The author of a book or play does not write the play or the book anticipating that he himself will either produce the play or publish the work. His sole function is with the pen.

Yet, any wilful infringer of either the play or book, by demonstrating to the Court that he did a good job in producing the play or in publishing the book, is entitled, under the decision of the Court below, not only to receive back his cost, but 80% of the profits as well.

All of the apportionment evidence was objected to and due exception was taken*.

It should not have been received much less acted upon.

In *Stearns-Royer Mfg. Co. v. Rath*, 87 Fed. (2d) 35, 39 (C. C. A., 10, 1936), similar evidence was presented to the Court and rejected, the Court stating:

"This evidence is without value. * * * If so, the profits would vary with the state of mind of different purchasers. * * * where the recovery is limited to *net profits* of sales actually made, *such evidence is not pertinent.*"

*R. 164-171, 266, 267, 279, 281-283, 541, 544, 563-568, 574-577, 590, 597-599, 601-603, 609, 611, 618, 619.

POINT IV.

Since the respondents have been found to be "deliberate plagiarists", they are under no circumstances entitled to an apportionment or other equitable consideration.

The respondents have been stamped as "deliberate plagiarists" (R. 1265).

Nevertheless the Court below has allowed them, not only all their manufacturing costs, including overhead, but also 80% of the net profits.

Such action is not only contra to the policy of the patent decisions but also every legal rule respecting the treatment of wrongdoers.

This Court in softening the previous hard and fast "alternative rule" of *Garretson v. Clark*, 111 U. S. 120, by its decisions in *Westinghouse v. Wagner*, 225 U. S. 604, and *Dowagiac Mfg. Co. v. Minn. Plow Co.*, 235 U. S. 641, has restricted its application to those cases where the infringement was not done in bad faith.

Thus in *Westinghouse v. Wagner*, *supra*, the Court pointed out that the liberation from the heavy burden of proof established by *Garretson v. Clark* would not extend to those who had "been guilty of gross wrong" (p. 620).

And in confirming this liberation in *Dowagiac Mfg. Co. v. Minn. Plow Co.*, the Court rested its view on the express finding of good faith. Thus, it says (p. 644):

"At the outset it should be observed that, while the defendants were infringers and bound to re-

spond as such to the plaintiff, their infringement was not wanton or wilful."

In the trademark case of *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251, 261, 262, this Court, although it refused an apportionment because it was "inherently impossible", gave as additional ground for not doing so the bad faith of the defendant.

Also:

Underwood Typewriter Co. v. For Typewriter Co., 220 Fed. 880, 886 (C. C. A. 6);

Brennan & Co. v. Dowagiac Mfg. Co., 162 Fed. 472, 476 (C. C. A. 6);

Dowagiac Mfg. Co. v. Superior Drill Co., 162 Fed. 479 (C. C. A. 6).

And as Mr. Justice Lamar in the *Westinghouse* case pointed out "the liability is not lessened because the confusion is due to a wrongful appropriation by a trustee *de son tort*, instead of carelessness of a trustee lawfully appointed" (p. 619).

POINT V.

The payment of \$922,141.09 to Messrs. Mayer, Rubin and Thalberg, in addition to salaries of \$130,000, \$104,000 and \$208,000 respectively in the year 1932, is a distribution of profits and is not properly allowed as cost.

These three individuals were engaged solely in the production of motion pictures. Their percentage compensation is predicated upon the earnings of Loew's, Inc., a holding company, not so engaged. It

merely owns *some* stock of the producing company (Ex. 17-R. 770, offered R. 327). Its other activities are *distribution* of motion pictures through stock ownership, and *exhibition* of pictures through its theatre subsidiaries, as well as real estate ventures incident thereto (Ex. 17-R. 770—offered R. 327; Ex. 13-R. 900—offered R. 457).

Before these individuals are entitled to the percentage Loew's, Inc. must first earn \$2 a share on its outstanding stock (R. 986).

The Court below allowed this item, saying:

“The payments were never profits of the defendants at all. The contracts effectively lay hold of them the moment they came into existence” (R. 1266).

How could existing contracts “lay hold” of profits of Loew's, Inc. which never in equity belonged to it? The profits made by Loew's, Inc. from this picture were equitably the property of petitioners.

Since profit is the residuum after payment of creditors, the petitioners, being equitable creditors, should not be called upon to participate in contributing to the claimed profits of Loew's.

Their rights precede the right of these individuals to claim profits.

The Master in disallowing this item followed *Lee v. Malleable Iron Range Co.*, 247 Fed. 795, 798, modified on other grounds and affirmed 263 Fed. 896 (C. C. A. 7), and cert. denied 254 U. S. 562 (R. 984).

It is submitted that the size of the percentage item, coupled with the huge annual salaries, alone serve to earmark it as a distribution of profits, particularly

when the distribution is made upon the basis of all of Loew's operations, when the three individuals receiving it are solely engaged in but one *i. e.* the production of pictures.

CONCLUSION.

It is therefore respectfully submitted that a writ of certiorari should be granted in this case.

Respectfully submitted,

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APPENDIX.

Constitution and Statutes Involved.

The Constitution of the United States (Article I, Section 8, Clause 8) gives to Congress the power:

"8. To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The pertinent portions of the Copyright Law (Tit. 17, U. S. C.) are:

"Section 25. *Infringement.* If any person shall infringe the copyright in any work protected under the Copyright Laws of the United States, such person shall be liable:

(a) *Injunction.* (a) To an injunction restraining such infringement.

(b) *Damages and profits; amount, other remedies.* (b) To pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement * * *.

(c) *Impounding during action.* (c) To deliver up on oath, to be impounded during the pendency of the action, upon such terms and conditions as the court may prescribe, all articles alleged to infringe a copyright;

(d) *Destruction of infringing copies and plates.* (d) To deliver up on oath for destruction all the infringing copies or devices, as well as all plates, molds, matrices, or other means for

making such infringing copies as the court may order..

§34. *Jurisdiction of actions under laws.* All actions, suits, or proceedings arising under the copyright laws of the United States shall be originally cognizable by the district courts of the United States. * * *

§38. *Review of orders, judgments, or decrees.* The orders, judgments, or decrees of any court mentioned in section 34 of this title arising under the copyright laws of the United States may be reviewed on appeal or writ of error in the manner and to the extent now provided by law for the review of cases determined in said courts, respectively."

